

February 22, 2011

Submitted Electronically

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Re: Proposed New Regulation II, Debit Card Interchange Fees and Routing
Docket No. R-1404 and RIN No. 7100 AD63

Dear Ms. Johnson:

Silicon Valley Bank ("SVB") is pleased to submit these comments in response to the Board of Governors of the Federal Reserve System's Notice and Request for Comments on the Proposed New Regulation II, Debit Card Interchange Fees and Routing ("Proposed Rule").

SVB supports the broad chorus of voices opposed to the Proposed Rule, which will have significant detrimental effects on virtually all parties involved, from banks (of all sizes) to consumers, and on the economy as a whole. Rather than repeat the many arguments in opposition to the Proposed Rule here, however, we generally refer the Board to the statements made by the American Bankers Association in both its individual and joint letters to the Board dated February 22, 2011 in opposition to the Proposed Rule. Additionally, we take this opportunity to inform the Board of how the Proposed Rule already has harmed, and will continue to harm, SVB and its clients in a manner that is both substantial and immediately tangible.

We urge the Board to adopt a more reasonable and flexible calculation of interchange fees, and, at the very least, to adopt a strict reading of the Proposed Rule's enabling legislation, which applies only to the Electronic Fund Transfer Act ("EFTA"), and as a result should apply only to consumer (and not business) debit transactions.

Background on Silicon Valley Bank

SVB is the premier provider of financial services for high growth, innovative companies. We provide a comprehensive array of banking services to clients in the technology, life science, venture capital and premium wine industries. Over nearly three decades, we have become one of the country's most respected banks serving the innovation sector, and today serve more than 13,000 clients through 26 U.S. offices and international offices located in China, India, Israel and the United Kingdom. We have deep expertise and extensive knowledge of the people and business issues driving the technology sector, which we believe allows us to contribute measurably to our clients' success. SVB is a California-chartered bank, a member of the Federal

Reserve System and the principal subsidiary of SVB Financial Group (“SVBFG”), a financial holding company.

Substantial Negative Impact on SVB and Its Customers

Over the course of the last several months, SVB has expended a significant amount of time, capital and resources in launching its business debit card product, which made its debut just a few weeks ago and continues to be introduced to SVB’s clients. Our plans to launch a debit card product preceded passage of the Dodd-Frank Act, although we of course anxiously monitored its progress as we continued to execute our debit card strategy.

The SVB business debit card provides our clients with a more efficient and convenient way to make certain payments. Among many other benefits, debit card transactions are fast (a simple swipe versus writing a check), paperless, do not require a cumbersome backend clearing process, and generally guarantee payment upon authorization. As a result, many of our clients, in particular smaller clients that lack sophisticated payments departments, view debit cards as an important product offering.

In addition to providing an enhanced and important payment service to our clients, our strategy in launching the debit card product took into account certain projections regarding the cost to maintain the product, recoup our initial investment, and provide sufficient ongoing revenue to justify the resources, as well as the operational risks, associated with the product. The Proposed Rule would severely undercut that projected revenue, jeopardizing SVB’s ability to continue offering the product in a manner that is both attractive to our clients and responsible to our shareholders. The likely result, short of eliminating the product altogether, is that we would be compelled to increase client fees in some other fashion in order to continue providing the service.

Compounding the negative effects of the potential revenue loss is the fact that the proposed caps (or any inflexible cap, for that matter) cannot accurately take into account program expenses across the wide spectrum of issuing banks. Inflexible caps will have a disparate impact on banks, favoring some over others – depending largely on their size. For example, banks with large card programs will be able to take advantage of their economies of scale to drive down costs, while banks like SVB, with a relatively small program focused on the business-to-business market, will have larger costs per transaction. Perversely, the Proposed Rule thus could drive some customers away from mid-sized banks to large banks.

A more immediate and tangible effect flowing from the threat of the Proposed Rule is that SVB has suspended plans to offer its debit card clients a “rewards” program – a program typically associated with such cards. As the Board is no doubt aware, card issuers have warned that the Proposed Rule would result in just such a scaling back of customer benefits. These

warnings are now coming to fruition because issuers simply have no choice; such programs would longer be economically sustainable. Indeed, in much publicized move, Chase recently announced that it would close off enrollment in its debit rewards program.

Ultimately, given the foregoing, it is clear that the Proposed Rule will have the effect of limiting customer choice, either by limiting access to the convenience and flexibility of debit cards, limiting the rewards programs to which customers have become accustomed, or simply increasing costs. Yet this is just the tip of the iceberg, as the broader impact will undoubtedly be one of hampering flexibility and innovation in the payments industry at a time our economy can least afford it.

SVB's client base consists in large portion of start-up companies and small to medium sized businesses in the technology sector – the very companies that are looked to in today's economy as the engine for growth and job creation throughout the country. These companies depend on operating very efficiently, including getting every benefit that can be derived from their banking relationships. The Proposed Rule would deny them a full choice of banking options and, at least at the margins, make the companies less efficient. As has been discussed elsewhere, the inefficiencies and costs imposed on banks and our clients appear to provide no resulting benefit for our customers. Instead, the Proposed Rule would simply result in the government removing revenue from banks and directing that revenue to large retailers, with absolutely no guarantee that the potential cost savings on interchange fees will be passed on to customers.

Exclusion of Business Debit Transactions

Because SVB's debit card program is almost entirely a business debit card program, an issue of particular importance to SVB is the application of the Proposed Rule to include business transactions. The Proposed Rule's enabling legislation, Section 1075 of the Dodd-Frank Act, amends EFTA by adding a new Section 920 regarding interchange fees. Because EFTA is a consumer protection law, and the amendments to EFTA adding Section 920 are in the consumer title of the Dodd-Frank Act, we again echo the comments of others in urging the Board to restrict application of the Proposed Rule to consumer debit transactions only.

Conclusion

In conclusion, SVB urges the Board to exercise its discretion to the maximum extent permitted under the statute, in order to allow for a more reasonable and flexible calculation of interchange fees that takes into account the full costs of maintaining a debit card program. We further urge the Board to restrict application of the Proposed Rule to consumer debit transactions only. The Proposed Rule's imposition of a cap, and its application to business debit transactions, would harm SVB and our customers, with no appreciable benefit.

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SVB appreciates the opportunity to comment on this issue of importance to our bank and our clients. Thank you for your consideration of these comments.

Sincerely,

A handwritten signature in cursive script, appearing to read "Mary Dent".

Mary Dent
General Counsel
SVB Financial Group